VHDA

November 30, 2000

Mr. Philip Leone, Director
Joint Legislative Audit and Review Commission
Suite 1100, General Assembly Building
Capitol Square
Richmond, VA 23219

Dear Mr. Leone:

VHDA is pleased to provide you with an update on our actions to address the issues raised in JLARC's June 2000 report on the Authority's activities and operations. The review process initiated by JLARC has provided a healthy opportunity for us to reexamine the ways in which we are addressing our mission to help our fellow Virginians obtain safe, sound and decent housing otherwise unaffordable to them.

This review has been timely in that our future poses significant challenges. Over the next several years, VHDA will experience a substantial decline in its ability to issue tax-exempt bonds to capitalize the Authority's lending programs. This is the primary resource that VHDA and other state housing finance agencies have traditionally relied on in order to provide below market interest rate mortgage loans for affordable housing. Nonetheless, we intend to continue to help address the Commonwealth's most critical housing needs by pursuing a strategy based on:

- Further optimization of the use of our limited tax-exempt bond authority and the federal subsidies we administer on behalf of the Commonwealth
- Maintenance of our ability to issue taxable bonds under favorable terms and conditions
- Building of active collaborative partnerships with other public and private entities
- Continued leadership in the development of innovative loan programs that are responsive to the unmet credit needs of low- and moderate-income Virginians

VHDA's Board of Commissioners and staff are now actively addressing the challenges and opportunities before us. Following is a summary of our approach to resolving the three broad issues raised in JLARC's report. A more detailed summary of our actions in response to each specific recommendation made by JLARC is provided in Enclosure A.

Three Broad Issues Raised by JLARC. The JLARC report raised the following three broad issues regarding how VHDA is fulfilling its mission:

- Is VHDA optimizing the use of its financial resources?
- Do VHDA's programs serve the right balance of low- and moderate-income needs and reflect the diversity of needs in different regions of Virginia?
- Is VHDA using federal Section 8 subsidies to the fullest extent possible?

Use of VHDA's Financial Resources. During the 1990s, VHDA had large volumes of mortgage capital to lend. This was true—in spite of the sharp contraction in the amount of annual new tax-exempt bond authorization made available to the Authority—because: (1) VHDA was able to issue substantial amounts of tax-exempt "refunding bonds" as a result of loan prepayments, particularly during periods of declining interest rates; and (2) the Authority's financial strength enabled VHDA to enter the taxable bond market under favorable terms and conditions (Enclosure B). During this period, the Authority's adequate supply of mortgage capital, together with declining market interest rates, enabled VHDA to serve large numbers of moderate-income homebuyers and provide substantial financing for affordable multifamily rental development while at the same time increasing the level of assistance to low-income homebuyers and providing significant annual contributions of new capital to the Virginia Housing Fund. This was the environment that shaped VHDA's policies during the period reviewed by JLARC, but VHDA is now facing a very different future.

Over the next few years, federal restrictions on the issuance of tax-exempt refunding bonds will significantly restrict VHDA's access to subsidized mortgage capital. In addition, VHDA cannot assume that conditions will always remain favorable for the issuance of taxable bonds under the terms and conditions necessary to support the Authority's affordable mortgage programs. Therefore, VHDA must undertake a broader consideration of how best to optimize the allocation of its bond funds and fund balance resources to support the Authority's mission and goals. VHDA has issued a request for proposals (RFP) for a resource allocation study in order to best equip the Authority's Board of Commissioners and staff to make the critical strategic resource allocation decisions facing VHDA over the coming five years. This study will address, but not be limited to, VHDA's policy of blending tax-exempt and taxable bond funds and the amount that the Authority can contribute annually to the Virginia Housing Fund. VHDA has consulted with the Department of Housing and Community Development and the Housing Study Commission in the drafting of the RFP because of the significance of this study to the Commonwealth. In addition, it is anticipated that the study will require significant interaction among the Consultant, members of VHDA's Board of Commissioners and representatives of VHDA's stakeholder groups in order to ensure full consideration of the needs and priorities that VHDA should be helping to address.

Housing Needs Served by VHDA. The coming decline in tax-exempt bond resources will necessitate that VHDA develop more focused and deliberate strategies for serving the needs of low- and moderate-income homebuyers and renters and for ensuring that resources are appropriately balanced between differing income groups and needs.

The Authority also recognizes that Virginia's housing needs are varied and changing. For low- and moderate-income homebuyers, blemished credit is now as significant a barrier to accessing affordable mortgage credit, as are income, savings and interest rates. In addition, changing demographics and divergent rates of local and regional growth are shifting the balance of housing supply and demand in ways that are having substantial impact on housing affordability for low- and moderate-income households and on local community development needs.

VHDA is committed to working in partnership with the Department of Housing and Community Development, local governments, and the nonprofit and for-profit housing industry to develop new strategies to address unmet housing needs while carefully allocating limited subsidy resources in a manner that best optimizes the public benefits provided. Therefore, under the direction of the Secretary of Commerce and Trade, VHDA and DHCD are initiating a statewide housing needs assessment to better ascertain the needs to which its resources should be directed. The outcome of that study will assist VHDA's Board of Commissioners and staff in determining future program priorities and appropriate levels at which to target resources to serve low-income households and people with special housing needs. As with the resource allocation study, the needs assessment will provide significant opportunity for involvement and input on the part of VHDA's Board of Commissioners and stakeholders.

Use of Section 8 Subsidies. In 1995, HUD changed its leasing procedures to encourage public housing agencies (PHAs) nationwide to "over lease" units by issuing Section 8 certificates and vouchers in numbers that would exceed the amount that authorized funding levels would support. HUD took this measure in response to growing criticism in Congress of its repeated failure to fully utilize all of the funds appropriated. Due to the uncertainty of future funding levels, VHDA did not aggressively over lease. Had VHDA not chosen such a conservative approach, then the program reserve balances subject to recapture would have been reduced.

In November 1997, Congress directed HUD to recapture $5.8 billion nationally in Section 8 reserves to provide funding for flood relief. The recapture was not a punitive action by HUD. Nevertheless, in order to minimize the potential for future recapture, HUD began pressuring public housing agencies, including VHDA, to fully utilize program budget authority. The Virginia State Office (VSO) of HUD questioned VHDA's past adherence to HUD's methodology for allocating program funds which called for PHAs to over lease units in order to ensure full use of annual budget authority. VHDA responded to HUD in July 1998 by allocating its annual budget authority to its local agents and passing on HUD's directive that the budget authority was to be fully utilized. By the end of FY 99, VHDA had added more than 2,000 households to its Section 8 program in an attempt to comply with the directives of the VSO.

Since that time, the situation has shifted dramatically. As a result of changes in national HUD policy, HUD now cannot provide the necessary funding for the number of units leased by VHDA under the VSO's directive. Consequently, the number of leased units must now be reduced through attrition in order for HUD funds to cover subsidy costs. Therefore, in July 1999, HUD required VHDA to impose a moratorium on the issuance or reissuance of Section 8 certificates or vouchers. The changes in methodology implemented by HUD produced an $8.3 million shortfall for FY 00 and necessitated VHDA advancing $7.5 million of its own funds to the program on an interim basis in order to prevent families from being evicted from their housing. VHDA is committed to using its resources to continue advancing interim funds to cover any HUD shortfalls. The Authority is currently working with the Virginia Congressional Delegation to obtain additional annual budget authority from HUD to fully fund all units under lease in order to end the moratorium.

VHDA is aware that ending the leasing moratorium will not resolve all of the challenges facing the Authority in administering the statewide Section 8 program. VHDA contracted with Abt Associates Inc., a national expert in Section 8 management, to undertake a comprehensive program review in order to assist the Authority's Board of Commissioners and staff in making necessary administrative changes. In September, VHDA received the final report from Abt Associates Inc. outlining alternative strategies for program restructuring and streamlining to better address the support and training needs of local administrative agents. A series of meetings was held around the state in early October to get input from local agents in the development of plans for making necessary administrative changes. Abt's findings and local agent input have been considered by VHDA's Board of Commissioners which has directed staff to move expeditiously to obtain the necessary resources to address all outstanding administrative issues. VHDA is confident that through restructuring and streamlining, a new partnership can be built with local agents through which the rental assistance needs of very low-income Virginians can be more effectively met.

In closing, VHDA remains fully committed to addressing the issues and recommendations raised by JLARC. The Authority is currently initiating important resource allocation and housing needs studies to enable VHDA's Board of Commissioners to make sound strategic decisions on how best to carry out the Authority's mission and stewardship of the Commonwealth's resources. In addition, VHDA has elevated the Section 8 program to a high priority and is expeditiously acting on the recommendations of Abt Associates Inc. We will regularly report on our progress in carrying out these activities to the Secretary of Commerce and Trade and the Housing Study Commission.

Thank you for the opportunity to provide the Commission with this status report on our activities.

Sincerely,

Susan F. Dewey

Susan F. Dewey
Executive Director

SFD:BSM:bm
Enclosures

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Enclosure A– VHDA Responses to JLARC Recommendations

Single Family Loan Programs

JLARC Recommendations

1. *VHDA should conduct a review of the single-family loan program to assess how the program can be improved to better meet VHDA's mission. VHDA should present its findings to the Board of Commissioners with recommended modifications.*

2. *VHDA should develop one or more loan products targeted to low-income households that provide substantially more assistance than financing provided by the private lending market.*

Actions Taken in Response to Recommendations 1 and 2

Review of Single Family Loan Program

VHDA's Single Family Division has processes in place, including a New Products Team and liaison with stakeholder groups, through which ongoing reviews of homeownership products and services occur. In light of JLARC's recommendations, VHDA has taken the following steps to: (1) review current single family loan programs; (2) consider new program opportunities; and (3) meet with stakeholder groups and VHDA's Board of Commissioners in order to identify and better serve unmet needs.

Review of Blending Policy. VHDA's staff and Board of Commissioners are having ongoing discussions regarding alternatives to the Authority's current policy of blending tax-exempt bonds with taxable bonds. This policy increases the number of homebuyers served, but– as noted by JLARC– also raises the cost of VHDA loans funded with tax-exempt bonds by 0.5%. The Board's policy discussion is part of a broader consideration of the income groups being served by VHDA's single-family programs and ways in which service to low-income households can be increased through lower interest rates. This issue has been made part of the scope of work for the Resource Allocation Study that VHDA is having conducted to help determine the optimal use of the Authority's financial resources (see Actions Taken in Response to Recommendations 13, 14 and 15). Therefore, the New Products Team is deferring consideration of programs involving alternative blending options until the fall of 2001 following the completion of the Resource Allocation Study.

Meetings with Stakeholder Groups and Board. VHDA staff has had ongoing meetings with business partners, members of the Housing Study Commission, and the Authority's Board of Commissioners in order to review single family program issues and opportunities.

- **Business Partners.** The Single Family Division has increased its outreach to business partners, including mortgage bankers and Realtors, to better identify and address the credit needs of low- and moderate-income people that are not being fully served by the private market. Traditionally, staff has met with partner groups at least annually to get feedback on VHDA's programs. The frequency of meetings has increased and liaisons with partners are being formalized and regularized through the reestablishment of a Single Family Advisory Council that will initially convene in January 2001.

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Single Family Loan Programs

- **Housing Study Commission.** VHDA is working closely with the Housing Study Commission to enhance the Authority's strategies for reaching underserved populations (e.g., minorities and new immigrants) and to identify unmet credit needs and program opportunities.

- **VHDA Board of Commissioners.** VHDA's Board of Commissioners and staff are actively involved in the following ongoing discussions and review of program proposals.

  ⇒ Consideration of the income level, household composition and needs presently being served by VHDA's single family loan programs and the types of unmet needs that VHDA can help address

  ⇒ Consideration of strategic choices regarding future targeting of single family products and services in light of the expected significant decline in tax-exempt capital beginning in FY 03

  ⇒ Consideration and approval of specific new program initiatives

New Products Team Proposals

Authority staff, through discussions with VHDA's Board of Commissioners, business partners, and members of the Housing Study Commission, has identified the following key obstacles to homeownership on which the Authority should focus.

- Lack of savings for down payment, closing costs and emergency needs
- Inability to meet underwriting ratio guidelines
- Poor credit history
- Inadequate understanding of budgeting, credit, home buying and homeownership responsibilities

These barriers impact households with low incomes far more than those with relatively higher incomes. Therefore, VHDA believes that it can best serve the needs of low-income households by addressing these four barriers to a substantially greater extent than the private sector is able or willing to do on its own. VHDA's Single Family staff and New Products Team are continuing to develop new or enhanced loan products and services which focus on these four obstacles. By the end of FY 01, VHDA hopes to be able to begin offering those new products that are currently under development.

Lack of Savings

Regional Loan Fund. VHDA, in partnership with the Department of Housing and Community Development, offers the Regional Loan Fund program that provides mortgage loans at 4.75% interest to low-income borrowers at loan-to-value ratios as high as 108%. Loan funds are administered by regional nonprofit partnerships through which significant outreach and support are provided to groups traditionally underserved in the mortgage market. This program is funded by VHDA through the Virginia Housing Fund and by DHCD with federal HOME funds. It was recognized by JLARC as a successful way of serving the needs of low-income households which have both a lack of savings and a need for lower qualifying ratios (see below). VHDA has allocated $14 million to this program for FY 01.

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Single Family Loan Programs

VHDA also offers two other programs that provide assistance with down payment and closing costs:

- **FHA Plus.** The FHA Plus program– funded primarily with tax-exempt bonds– combines an FHA-insured first mortgage with an uninsured second mortgage for down payment and closing cost assistance. Together these loans provide for a combined loan-to-value ratio of up to 103%.
- **Flexible Alternative.** The Flexible Alternative program– funded with taxable bonds– provides mortgages with loan-to-value ratios of up to 100%.

New Products to Address Unmet Needs. In spite of these programs offered by VHDA, there are still borrowers for whom lack of savings remains a barrier.

- **Accessibility Improvements:** Disabled borrowers may need to make accessibility improvements but lack the funds to pay for them and cannot finance the cost because the resulting mortgage would exceed the value of the home. The New Products Team is developing a new product that will allow a loan-to-value ratio of up to 110% to enable disabled borrowers to make needed accessibility improvements.
- **Minor Repairs/Improvements.** For the same reason, other homebuyers may not be able to afford to make needed minor repairs or improvements to enhance the livability and energy efficiency of the property that they are seeking to buy. The New Products Team is developing a new product that will allow a loan-to-value ratio of up to 105% to cover the cost of minor repairs and upgrades.
- **Emergency Assistance for Low- and Moderate-Income Homeowners.** Lack of savings also has a substantial impact on low-income homebuyers after they have purchased a home. Lack of savings makes these households particularly vulnerable to unforeseen contingencies (e.g., job layoffs, illness, etc.) and, thereby, increases their risk of foreclosure. The New Products Team is developing a loss mitigation revolving loan fund to be made available to VHDA mortgagors in danger of losing their homes to foreclosure through no fault of their own. The loans will enable mortgagors to continue making payments until they are able to get back on their feet.

Lower Qualifying Ratios

Step Rate Loans. VHDA offers Step Rate loans that enable borrowers who do not meet the qualifying ratios for VHDA's standard tax-exempt bond program to qualify at a reduced initial interest rate. The interest rate is reduced by 1.5% below VHDA's regular interest rate for the first year and then steps up over two years to a long-term interest rate. Since 1994, this program has successfully enabled low-income households with incomes of less than 60% of area median to qualify for the purchase of a home. However, a year ago, VHDA had to impose an up-front 1% fee on Step Rate borrowers to cover losses due to early loan prepayments (FHA and VA do not allow lenders to charge prepayment penalties on loans they insure). The cost of this fee offset much of the program's benefit to low-income borrowers and the number of Step Rate loans originated has declined substantially.

New Products to Address Unmet Needs. The New Products Team is exploring the feasibility of offering Step Rate loans through the Flexible Alternative program which is financed with taxable bonds. Those loans are self-insured by VHDA, and so a prepayment penalty can be instituted in lieu of an up-front fee.

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Single Family Loan Programs

Poor Credit History

In recent years, the private "sub-prime" mortgage market has burgeoned in response to the growing problem of borrowers with blemished credit. Unfortunately, too many low- and moderate-income households have accessed sub-prime mortgages at a high price and under terms and conditions that have lead to high rates of failure.

New Products to Address Unmet Needs. The New Products Team is seeking to develop a loan program that will give borrowers who have experienced past credit problems, but who demonstrate the ability and willingness to repay their obligations, an alternative to sub-prime mortgage loans. The program will enable borrowers to qualify at a market rate of interest rather than the considerably higher rates charged in the sub-prime market. An important feature will be a partnership established with counseling agents. In-depth pre- and post-purchase counseling will be provided to applicants to familiarize them with the home-ownership process, managing of finances, living within a budget and allocating money to a savings plan.

Inadequate understanding of budgeting, credit, home buying and homeownership responsibilities

For many low- and moderate-income households, inadequate understanding of budgeting, credit, the home buying process, and the ongoing responsibilities of homeownership are significant barriers to obtaining mortgage credit and achieving success in homeownership. This was confirmed and amplified by Fannie Mae, in its 1999 national housing survey which found that fully half of American adults misunderstand the effect of bad credit on their ability to qualify for a mortgage loan.

Services to Address Unmet Needs. In response to this problem, VHDA continues to be a leader in developing homeownership education programs serving a wide variety of needs. Since the inception of VHDA's homeownership education program in 1993, over 23,000 individuals have completed a VHDA-sponsored class.

- **Development of Education Curricula.** VHDA has developed a comprehensive curriculum for homeownership education programs that is recognized and used by public and private lenders throughout Virginia. It is revised and updated regularly by VHDA. The Authority is also partnering with the National and Virginia Chapters of the Mortgage Bankers Association and the Virginia Council on Economic Education to develop a curriculum on credit and home purchase for use in Virginia public schools. The Homebuyer Education and Learning Partnership (HELP) is sponsored by the National Council on Economic Education.

- **Train the Trainer Seminars.** VHDA conducts "train the trainer" seminars to certify industry professionals, including lenders, real estate agents and nonprofits, to provide homeownership education classes. This training program has helped establish the availability of homeownership education programs throughout the Commonwealth. The Virginia Association of Realtors has approved VHDA's training program for continuing education units for Realtors. To date, VHDA has certified 310 lenders, 126 Realtors and 290 individuals from nonprofit organizations.

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Single Family Loan Programs

Other Unmet Needs

Single Family staff is also developing products and services for other homeownership needs not being adequately addressed in the private market.

Home Purchase and Rehabilitation. Industry studies and market feedback indicate that increasing construction costs and an aging housing stock will create an increased demand for affordable rehabilitation financing alternatives. While home purchase/rehab loans are available in the private market, most borrowers/lenders/Realtors hesitate to use these programs due to their complex requirements. The New Products Team is developing a purchase/rehab program that will offer streamlined procedures, reduced costs and higher loan-to-value ratios than are currently available through existing programs.

Rural Outreach. VHDA has expanded the service of its mobile mortgage units to directly originate loans to low- and moderate-income homebuyers in additional rural communities not adequately served by conventional mortgage bankers. VHDA's mobile mortgage units are providing rural residents with access to mortgage credit otherwise unavailable. VHDA is also using the mobile mortgage units to provide programs and services targeted to low-income households. These include: (1) serving as the Regional Loan Fund administrator in rural communities where a nonprofit is not present; (2) partnering with the Rural Housing Service of the U. S. Department of Agriculture to promote its loan programs serving low-income borrowers; and (3) providing homeownership education and counseling in rural communities to build a foundation that enables low-income households to successfully become homeowners.

Outreach to Minorities and New Immigrants. While the overall homeownership rate in Virginia has risen to record high levels, some groups– particularly African Americans and Hispanics– continue to experience lagging homeownership rates. Currently, VHDA is: (1) working to establish partnerships with lenders and Realtors who tailor their business activities to assisting minority borrowers; and (2) conducting program outreach through minority media. In addition, VHDA has taken steps to better serve non-English speaking households. The Authority subscribes to AT&T's Language Line interpreter service through which VHDA staff can converse with borrowers in any of 140 languages. VHDA is also printing homeownership education materials in an array of languages in order to bridge language barriers. Finally, VHDA is working with the Housing Study Commission to consider ways in which the Authority can expand its outreach and service to these groups.

Multifamily Loan Programs

JLARC Recommendations

3. *VHDA should conduct a fundamental review of the processes by which rents are set for the projects it finances. In addition, VHDA should evaluate how it could provide incentives to developers to provide more affordable rents. Options that should be considered include further lowering interest rates on VHDA financing and providing additional equity to developers through second mortgages.*

Enclosure A– VHDA Responses to JLARC Recommendations

Multifamily Loan Programs

4. *VHDA should conduct a comprehensive analysis of the housing needs in all regions of the State periodically. VHDA should use the results of this analysis to design and administer financing programs that will match the housing needs of low- and moderate-income people in each region of the State.*

Actions Taken in Response to Recommendations 3 and 4

Encouraging More Affordable Rents

VHDA is taking a number of steps to encourage and facilitate more affordable rents in the multifamily rental developments it finances and to which it allocates federal Low Income Housing Tax Credits (LIHTCs).

Low Income Housing Tax Credits. VHDA is reviewing the modification of Virginia's Qualified Allocation Plan, which governs the competitive allocation of federal Low Income Housing Tax Credits to developers of qualified low-income rental housing, in order to provide a greater incentive for developers to produce units with rents affordable to households with incomes of 50% or less of area median. Whereas past low-income targeting incentives in the 9% LIHTC program have encouraged developers to restrict occupancy to households with incomes of 50% or less of area median, VHDA will attempt to structure future incentives to ensure greater affordability of rents to whatever low-income group is targeted by the project. VHDA will also be discussing with the development community ways to achieve rents affordable to households with incomes of 50% or less of area median in the tax-exempt bond/4% LIHTC program.

Virginia Housing Fund. VHDA is now restricting Virginia Housing Fund financing to multifamily projects with rents affordable to households with income of 50% or less of area median. A case-by-case waiver will be made for projects in rural areas with very low area median income or for other good cause.

Virginia Foundation for Housing Preservation. VHDA, in partnership with the Housing Study Commission and the Department of Housing and Community Development, has been instrumental in the creation and structuring of the Virginia Foundation for Housing Preservation– a community development financial institution (CDFI) designed to provide secondary gap financing to developers seeking to preserve Virginia's stock of affordable rental housing. The VFHP will provide private leverage for VHDA financing, federal Low Income Housing Tax Credits and other existing public resources in order to capitalize and/or rehabilitate multifamily developments and retain rents that are affordable to low- and moderate-income households. The VFHP was established as a federally approved CDFI in order to attract private financial support. To date, Bank of America, First Union, Capital One, SunTrust, and Fannie Mae are represented on the VFHP board. They have either invested or intend to invest in the near future. VHDA has contracted to provide ongoing staff and administrative support to the Foundation.

Statewide Housing Needs Assessment

VHDA and the Department of Housing and Community Development are undertaking a statewide assessment of housing needs under the direction of the Secretary of Commerce and Trade. The assessment is intended to: (1) provide the two agencies with a common basis for understanding regional differences in housing needs; and (2) assist them in making more informed decisions regarding the

Multifamily Loan Programs

allocation of resources and the development of future program initiatives. The assessment will be overseen by an advisory committee of three members of the VHDA Board of Commissioners and three members of the State Board of Housing. The assessment will entail the synthesis of data and information collected from existing federal, state, local and industry sources, as well as direct public input solicited through a series of regional housing forums to be convened in the spring of 2001. An initial needs assessment report will be completed by mid-2001 summarizing current trends in housing conditions and needs in urban and rural housing markets. VHDA and DHCD intend to continue collecting and reviewing information on regional housing needs on an ongoing basis.

Section 8 Program

JLARC Recommendations

6. *VHDA should implement management policies to ensure that all federal Section 8 funds allocated to the authority are utilized to the maximum extent reasonably practicable.*

7. *VHDA should discontinue its current process of verbal negotiation in determining the allocation of Section 8 administrative fees to local administrative agents and should implement a formal policy that will ensure a fair and equitable distribution of these fees.*

8. *VHDA should make the development of a Section 8 automated data transmittal system a high priority and commit the resources necessary to develop it.*

9. *VHDA should make the development of an effective Section 8 payment disbursement system a high priority and commit the resources necessary to develop it.*

10. *VHDA should solicit input from local administrative agents on training needs and develop a regular training program that meets the training needs of the agents.*

11. *VHDA should take measures to improve efficiency and reduce excessive expenditures of the Section 8 program in order to allocate more fees to local administrative agents. VHDA should direct the consultant currently evaluating the Section 8 program to assess staffing, organization and other potential cost saving measures.*

12. *VHDA should perform a comprehensive evaluation of the financial impact of transferring Section 8 units to local agents that desire to administer all of their units directly through HUD, based on an accurate assessment of the funds needed by VHDA to administer the Section 8 program efficiently. VHDA should then develop a plan for the transfer of at least a portion of these units to the local agents.*

Enclosure A– VHDA Responses to JLARC Recommendations

Section 8 Program

Actions Taken in Response to Recommendations 6 through 12

Status of Utilization of Funds

The chronology of the shift in funding status of VHDA's Section 8 program from being over-funded by HUD (the under-utilization issue raised by JLARC) to being under-funded by HUD (current leasing moratorium) is outlined in the cover letter to this enclosure.

Abt Report

In response to the findings of the HUD Inspector General, VHDA contracted with Abt Associates Inc., a national expert in Section 8 administration, to comprehensively review the Authority's administration of the program– including the findings and recommendations of the Inspector General and JLARC. Specifically, Abt was charged with presenting alternative administrative models to address the issues that were raised. Abt presented its report to VHDA in September. Abt offered three alternative models: (1) the continued central administration of the program by VHDA with restructuring and streamlining to reduce costs and provide greater focus on training and support of local agents; (2) a shift away from centralized administration in favor of decentralized regional offices, likewise with greater focus on training and support; and (3) a substantial consolidation of local administration and shift of many administration responsibilities to new regionalized agents. The report provided specific alternatives regarding fees, automation, training and the transfer of units to local agents for direct administration. Abt also strongly recommended that any changes in program administration be carried out through the active involvement and consensus of local administrative agents.

Meetings with Local Agents

Following receipt of Abt's final report, VHDA held three meetings across the state in early October with local administrative agents to: (1) review the alternatives contained in the report; (2) seek their preference regarding a future administrative model; (3) solicit their input and guidance on issues regarding the development of a plan for transferring units to local agents for direct administration; and (4) consider ways to improve ongoing two-way communication.

"Streamlined Central Office" Model. Fully 49 of the 57 local agents attending the meetings (86%) preferred that VHDA pursue Abt's "streamlined central office" model with future savings in administrative costs supporting a greater share of administrative fees for local agents.

Local Agent Advisory Group. Consensus was reached on the convening of a nine-member local agent advisory council in order to maintain ongoing two-way communication with local agents.

Direction from VHDA's Board of Commissioners

VHDA's Board of Commissioners reviewed the Abt Report, the input from the statewide meetings and staff recommendations, at a Board retreat in mid-October. The Board concluded that VHDA should continue to administer a statewide Section 8 program, and instructed staff to proceed with plans to:

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Section 8 Program

- Make the program functional, effective and operative using the "streamlined central office" model
- Transfer units to local agents requesting to directly administer units with HUD
- Retain and direct resources toward automating and streamlining the program, examining the administrative fee structure, and developing a training program

A decision has been made for the Section 8 program to report directly to the Deputy Executive Director in order to emphasize to staff and agents that Section 8 improvements are a high priority for VHDA.

Transfer of Units to Local Agents

As a result of input received at the statewide agent meetings, VHDA has developed a plan for transfer of units to local agents. Under that plan, any locality with a VHDA contract that has the resources and systems currently in place to administer the program directly with HUD will be allowed to opt out of the statewide program. Such localities may submit a letter of intent to VHDA by December 1, 2000, for a transfer of units effective July 1, 2001 (or at a subsequent date to correspond to the beginning of the local fiscal year). VHDA is working with local agents to help them determine if they have the necessary systems and resources for direct program administration. July 1, 2002, is the target date for transfer of units to local agents that require time to develop the necessary administrative systems and resources.

Automation, Streamlining, Fees and Training

Planning for automation, streamlining, restructuring of fees, and creation of a training program depends in part on the remaining size and geographic make-up of the statewide program once units have been transferred to local agents for direct administration. Following are the next steps that VHDA will actively pursue once letters of intent for withdrawal from the statewide program have been received.

- Development of a draft business plan for review by local agents by the end of 2000
- Continued steps to select a software system for the majority of the Section 8 program's automation needs by April 2001
- Continued steps to achieve the rollout of an electronic data transmittal system by July 2001
- Curtailment of spending for development of additional functionalities for the existing computer system pending a decision on use of vendor systems
- Continued analysis of the consolidation of accounting and quality control functions in order to determine the impact of program streamlining on reducing costs
- Creation of a uniform and equitable fee structure by July 2002
- Continued contracting with external sources for the training needs of the program until in-house staff are prepared to assume the training roles and implement an ongoing training program
  [A training program was held on November 20-21, 2000]

Enclosure A– VHDA Responses to JLARC Recommendations

Virginia Housing Fund

JLARC Recommendations

13. VHDA should contribute the maximum amount feasible annually to the Virginia Housing Fund without having an undue adverse impact on VHDA's financial strength.

14. VHDA should leave all interest generated from Virginia Housing Fund investments and mortgages in the Virginia Housing Fund.

15. VHDA should modify its current process for determining the amount of funds that can be allocated to the Virginia Housing Fund to include all relevant factors that will help VHDA to more accurately determine how much can be contributed annually. Each time VHDA conducts an assessment of how much it can contribute to the Virginia Housing Fund, the authority should report the results to the Virginia Housing Study Commission.

Actions Taken in Response to Recommendations 13 through 15

Resource Allocation Study

VHDA has accelerated the schedule for completing a new fund balance study to address the recommendations made by JLARC. The two previous fund balance studies undertaken by VHDA focused solely on the annual amount of funds that VHDA could allocate to the Virginia Housing Fund. However, in light of the anticipated substantial decline in tax-exempt bond issuance authority that will occur beginning in FY 03, VHDA will be forced to allocate its fund balances to support a broader array of lending programs. Accordingly, the new study will be a much broader resource allocation study and will be used to determine the optimal allocation of VHDA's resources to meet the Authority's goals. Those include, but are not limited to the following:

- Serve as many low- and moderate-income Virginians as possible
- Pay special attention to mortgage loan programs designed to serve households with incomes at or below 60% of area median and households with incomes between 60% and 80% of area median
- Contribute the optimum prudent amount to the Virginia Housing Fund
- Maintain continued growth in total mortgage loans outstanding and mortgage loan originations
- Position the Authority to operate at an optimum level to accomplish its mission over the long term

One recommendation of the study will be the amounts to be contributed to the Virginia Housing Fund for each of the five years beginning October 1, 2001. The study will also address the issue of the treatment and disposition of interest in the Virginia Housing Fund.

A mandatory requirement of any recommended Authority resource allocation is that such allocation will not have an undue adverse effect on VHDA's financial strength and performance, which is defined to include but is not necessarily limited to the following.

Enclosure A– VHDA Responses to JLARC Recommendations

Virginia Housing Fund

- VHDA's operations will continue to have no adverse effect on the Commonwealth's bond ratings
- VHDA's general obligation bond ratings will remain equal to or greater than AA+ by Standard & Poor's and Aa1 by Moody's
- Any contribution to the Virginia Housing Fund or other similar non-self-supporting loan programs will come from cash flow generated from normal operations
- VHDA will continue its historical record of increases in earnings in order to enable the Authority to continue support for low interest rate loan programs including the Virginia Housing Fund [Other than tax-exempt bonds, VHDA's earnings are its only source of below market interest rate funding for mortgage loan programs]

Involvement of DHCD, the Housing Study Commission and Stakeholders

VHDA developed a draft request for proposals (RFP) for a resource allocation study, which was discussed with the Department of Housing and Community Development and the Housing Study Commission. A final RFP was subsequently approved by VHDA's Board of Commissioners on October 16, 2000, and released shortly thereafter. Responses are due by November 30, 2000. VHDA expects the study to be completed by June 2001. The RFP states it is anticipated that the study will require significant interaction among the Consultant and members of VHDA's Board of Commissioners and representatives of Authority stakeholder groups. VHDA will also incorporate into the study any relevant information available for the statewide housing needs assessment (see actions related to JLARC recommendations 3 and 4).

VHDA Governance and Oversight

JLARC Recommendations

5. *The General Assembly may wish to consider amending §36-55.28 of the Code of Virginia to require that the Governor appoint no more than two persons from any one area of the State to the VHDA Board of Commissioners.*

16. *The General Assembly may wish to consider whether the Virginia Housing Study Commission should play a more active role in oversight of VHDA in its financing of housing programs. The Virginia Housing Study Commission may also wish to conduct oversight of the Section 8 program in its oversight of VHDA.*

Actions Taken in Response to Recommendations 5 and 16

VHDA Board Composition

No action is being taken by VHDA in regard to recommendation #5. As stated in VHDA's June 8, 2000, response to JLARC's report, the appointment of Board members is at the discretion of the Governor. The

Enclosure A– VHDA Responses to JLARC Recommendations

VHDA Governance and Oversight

Code requires that Board members have varied professional and industry backgrounds. That has proven to be desirable. Throughout VHDA's history, Governors have attempted to maintain reasonable geographic representation on VHDA's Board. In practice, it can be difficult to achieve both professional and industry representation as well as a predetermined geographic representation. Therefore, the current statutory requirements appear to be adequate.

Housing Study Commission Oversight

VHDA continues to work closely with the Housing Study Commission to review and analyze unmet housing needs and develop new program initiatives. The Authority reports annually to the Commission on the Authority's programs and activities. In September, 2000, VHDA met with Commission to provide an update on the Authority's actions in response to JLARC's findings. Staff are also meeting individually with Housing Study Commission members to keep them informed of VHDA's programs and discuss how VHDA can help in addressing the housing issues facing the Commonwealth.

VHDA is currently working in close partnership with the Commission in the following policy areas that they have identified to be priorities.

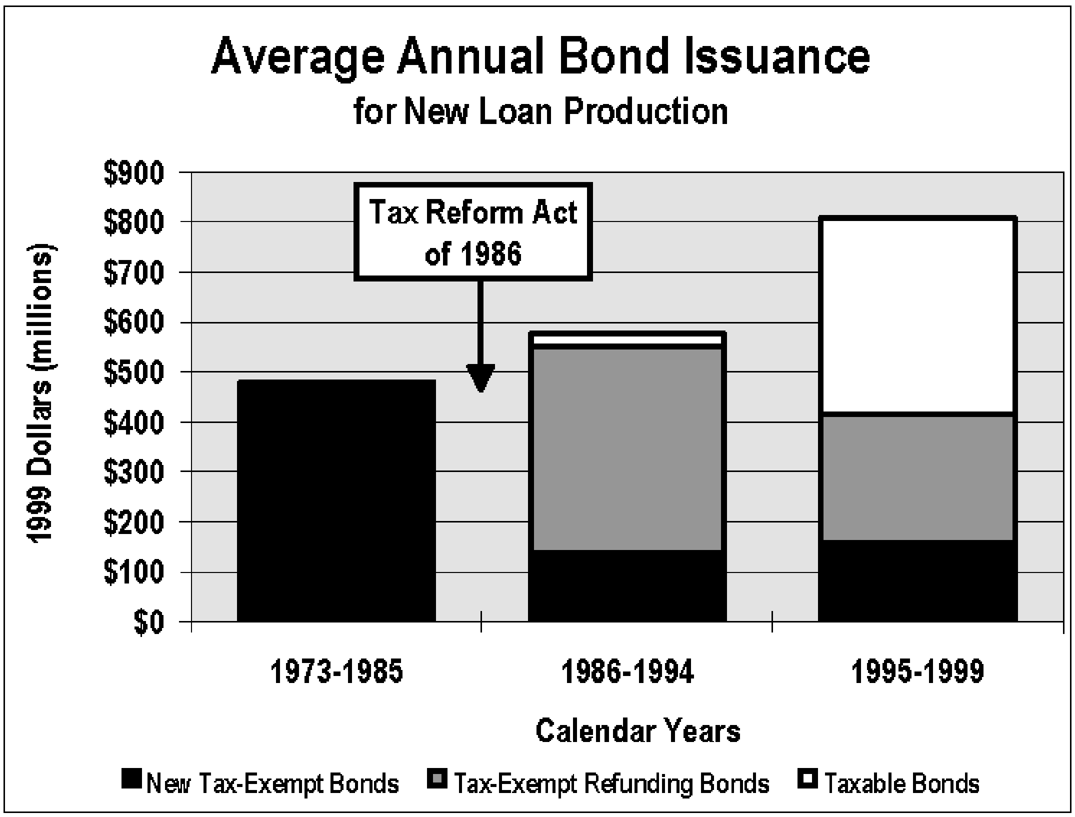
Housing Preservation. The new Virginia Foundation for Housing Preservation has board representation by the directors of VHDA, the Department of Housing and Community Development and the Housing Study Commission, as well as representatives of the financial institutions which provide the investment funds. The Foundation provides a vehicle for coordination of VHDA and DHCD multifamily housing preservation programs in cooperation with the Housing Study Commission and the private sector.

Assisted Living. A state-level working group has been established to pursue opportunities to foster the development of affordable assisted living facilities. The director of the Housing Study Commission is a member of the working group along with staff of VHDA, DHCD, DMAS, the Dept. for the Aging, and DSS.

Homeownership Initiatives. VHDA is working closely with the Commission to identify strategies to better serve the homeownership needs of minorities and new immigrants. VHDA is also working with the Commission to identify and address barriers to homeownership for low- and moderate-income households.

Local Government Relations. VHDA has established a formal partner group with local government representatives to maintain ongoing liaison regarding housing issues of mutual concern. The Housing Study Commission has been involved in the creation and ongoing meetings of this group.

Section 8 Program. VHDA will continue to report to the Housing Study Commission on a regular basis the Authority's progress on issues raised by the HUD Inspector General and JLARC concerning the administration of the Section 8 program.


Average Annual Bond Issuance
for New Loan Production
1999 Dollars (millions)
$900
$800
$700
$600
$500
$400
$300
$200
$100
$0
Tax Reform Act of 1986
1973-1985
1986-1994
1995-1999
Calendar Years
New Tax-Exempt Bonds
Tax-Exempt Refunding Bonds
Taxable Bonds

Enclosure B